VZCZCXRO8129
RR RUEHBC RUEHDA RUEHDE RUEHIHL RUEHKUK
DE RUEHGB #2830/01 2351429
ZNR UUUUU ZZH
R 231429Z AUG 07
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC 2969
INFO RUCNRAQ/IRAQ COLLECTIVE

UNCLAS SECTION 01 OF 02 BAGHDAD 002830

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E.O. 12958: N/A
TAGS: ECON EFIN PGOV IZ
SUBJECT: PENSION REFORM UPDATE: WILL COOLER HEADS PREVAIL?

REF: A. BAGHDAD 2402
¶B. BAGHDAD 2528
¶C. BAGHDAD 2500
¶D. BAGHDAD 2604

¶1. (SBU) Begin Summary: The future of pension benefits for Iraqi retirees remains in doubt as debate on the first amendment to the Unified Retirement Law (#27/2006) will not resume until the Council of Representatives (CoR) reconvenes in September following its summer recess. The Pension Reform Steering Committee (PRSC) led by Ministry of Finance (MoF) officials has met on several occasions and has prepared a presentation on adjusting the pension benefit levels for existing retirees that will be briefed to the Council of Ministers (CoM) in the near future. CoR members have expressed concern that existing retirees' benefits will be substantially less than the benefits of those opting to retire after the legislation goes into effect. Enacting pension reform that will not cripple Iraq's fiscal solvency is crucial for many obvious reasons, first among them to assuage the IMF SBA requirement that the total expenditures for pensions not exceed 5.5 percent of GDP. With the extension of the SBA through December announced in early August, the sense of urgency has waned; however, the passage of sensible pension reform, satisfying internal political demands without jeopardizing fiscal stability, represents an important test in governance for Iraq. End Summary.

Background of the Unified Retirement Law

¶2. (SBU) The Unified Retirement Law was published in January 2006, but the CoM decided to postpone indefinitely its enactment because they considered it incomplete and faulty. In its original form, the law did not include a minimum age for retirement, only 15 years of service. An oversight in the law would permit only those employees in office as of the date of publication (17 January 2006) with 15 years of service to enter into retirement. Without an amendment to mitigate this unintended consequence, employees who may have met the minimum years of service requirement, but were not in office as of the date of publication, would never be eligible to receive a pension under the provisions of the law. Most controversially, the law did not make explicit retirement provisions for large segments of the population such as reinstated former political dissidents and former employees of dismantled entities (primarily state owned enterprises).

¶3. (U) In late August 2006, the Pension Reform Steering Committee (PRSC) met with IMF and World Bank officials in Amman and agreed on a series of revisions to the Unified Retirement Law. The group addressed several of the outstanding problematic provisions with the overarching goal of ensuring the long term fiscal solvency for Iraq. Additionally, the group considered pension systems in neighboring countries to provide context. The amendment includes the following key provisions: a minimum age of 50

for retirement, compulsory retirement at 63 with a possible three-year extension, minimum pension amounts, redefining disability and survivor pensions to comport with international standards, and an annual inflation-based adjustment.

No Unequal Treatment Under the Law

¶4. (SBU) The first amendment, with provisions as agreed by the IMF and WB, to the Unified Retirement Law had its second reading on 3 July 2007 at the CoR, sparking acrimonious debate. The most politically charged issue was the arbitrarily discriminatory treatment of pensioners who retired prior to the publication date of the law. Debate in the CoR focused on the discrepancies between new pensioners and existing pensioners who retired under the old system, because new retirees stand to earn more lucrative pensions under the terms of the amendment. Several CoR members called for another amendment to make retroactive any benefits calculation to the pensioners who entered into retirement prior to the 17 January 2006 publication of the law. According to the MPs, this measure would ensure equality of pensions for all retired Iraqis.

Proposed Solution: Marginal Inequality?

¶5. (U) Following the amendment's second reading, the PRSC was tasked to prepare a white paper outlining the fiscal effects associated with adjusting upward the minimum pension payments for existing retirees, as some CoR members demanded. (Note:

The IMF and WB stated unequivocally that recalculating benefits for existing pensioners to match those proposed for new retirees according to the new system for calculating benefits would not be possible because of the fiscal strain such a provision would incur. The PRSC has consistently advised the CoR that any change in benefits calculations should not constitute a disproportionate burden on the federal budget. End Note). The paper was first presented on the morning of 30 July 2007 (the CoR's final session prior to the August recess) to the CoR Finance Committee, which in turn presented it to the plenary later that same day. According to a USAID contractor in attendance for the presentation, the CoR agreed to the PRSC proposal.

¶6. (SBU) The MoF and CoM are responsible for implementing the legislation. However, the CoR Finance Committee, claiming they could not trust the executive branch, insisted that the PRSC make the presentations on the proposed modifications to the CoR so that the amendment to the law would explicitly reflect the CoR's consensus. The PRSC is scheduled to give the same presentation on the new methodology to the Council of Ministers in August. If it meets with the CoM's approval (though not required for passage in the CoR), the amendment to the Unified Retirement Law should achieve passage without further delay.

A Need for Haste

¶7. (U) The published Unified Retirement Law mandates the creation of a State Pension Fund, a theoretically self-sustaining fund (with contributions from the state and employees) from which retirees will be paid. All pensioners currently are paid from the Federal Budget and not from the State Pension fund because of the CoM's decision to suspend indefinitely the enactment of the law. However, the creation of the State Pension fund will not be possible until the amendment is passed because establishing the fund would implicitly validate the law. Moreover, the Federal Budget law

that was passed for 2007 mandates the establishment of the State Pension fund during the 2007 fiscal year (which ends at the conclusion of the current calendar year).

¶8. (SBU) The principal concern for the IMF and WB is that total pension expenditures, in whatever form, not exceed 5.5 percent of GDP. The amendment's proposed changes in its current form satisfy this requirement. On August 2, the IMF announced the extension through December of the Stand-By Arrangement (SBA) for Iraq based partially on assurances that the CoR would pass sensible pension reform.

Comment

¶9. (SBU) Begin Comment: We will continue to report on the status of this legislation as it winds its way back through the CoR upon its return from August recess. Based upon our conversations with members of both the legislative and executive branches (see reftels), parties with vested interests recognize the need to weigh carefully political considerations and fiscal concerns. The new proposals by the PRSC specifically address the CoR's concern that all retirees who fall into similar categories receive as close to the same benefits as possible. It will be telling to see how the GOI passes this test of governance and illustrative of its development to date. End Comment.

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